expenditures from all funds have been considerably less than the current revenues accruing to those funds. Our budget is balanced, in fact as well as in form.

The surplus of the Central Government should be jealously guarded. It may be difficult to borrow externally at advantageous rates of interest. Lack of large local capital accumulations limits the possibilities of internal loans. While the governmental bonded debt is not excessive and is being properly serviced, major financial problems exist in the bonded indebtedness of our railroads, and in the pension funds of the government wherein liabilities are steadily accruing without adequate provision to meet them. Those pension funds at present are not actually sound and a government policy for their rehabilitation should be instituted without delay. Several provinces are financially weak. Ordinary and recurring normal expenditures for the national defense will tax government resources severely. Continuing demands may be expected for concessions to delinquent taxpayers, and the prospects of increasing revenues are not favorable without extreme measures that might curtail business and investment activities.

It would seem wise, therefore, to keep the present surplus intact as the proper reserve for a government of the position and size of the Philippine Government. Extraordinary and nonrecurring accretions should be recognized and treated as windfalls that will not be repeated. Let us look well to cut within our financial cloth. In our present economy and environment, the safe course for this government is to keep its budget in balance and its current expenditures within current income. Without a sound financial position and a program of sound public finance, the most essential and fundamental functions of government are handicapped and may be completely paralyzed. No governmental activity comes ahead of an orderly financial program.

In closing this subject I should like to repeat the exhortation contained in my first address to the Philippine people:

> The first duty of such a government (this government), in order of

statement if not of importance, is to conduct its own business on a sound and orderly basis, efficiently and economically, giving a peso in actual service for every peso of income. It must carefully budget its expenditures so that they will not exceed its revenue or dissipate the public resources in unnecessary services or activities. For the time being we must have recourse to uncompromising economy in spending. The public debt also must be kept within proper and conservative limits. This result will be assured